

Implementing a long-term incentive plan allowed this bank to attract and retain its key executives, while enhancing the bank's financial performance.



client case study

Long-Term Incentive Plan Design and Implementation

Background A Federal Savings Bank began a new way of banking for its members and their families in 1999 by providing a full range of traditional deposit and lending services, all without any brick-and-mortar branches. The organization's clients are able to fully access their accounts and services by internet, along with phone, fax, or mail. This organization has positioned itself for growth and by 2008, its assets had grown to over \$575 million.

Challenge To continue achieving its growth and success, the bank wanted to find a way to recognize and reward their executive team for the long-term profitability and performance of the bank, helping to ensure retention of its top talent.

Hank Federal, Findley Davies' Compensation and Rewards Senior Consultant in Charlotte, North Carolina, reflects on the challenge, "This is a very unique organization, both from an operational point of view as a virtual bank and in its ownership structure. These challenges required us to be very creative in our design to meet their competitive needs for talent but also concentrate on a return to the shareholders."

Findley Davies' Solution Findley Davies, working with the bank's Board of Directors, developed specific objectives which were going to be critical to the success of a well-designed long-term incentive plan for the bank's executive team:

- Align the interests of executives and shareholders in growing the value of the organization
- Provide awards dependent upon long-term profitable growth and continued employment
- Deliver market-competitive awards to attract and retain talent tied to performance
- Create executive investment so that executives, like shareholders, are at risk for the future performance of the organization

To accomplish these objectives, Findley Davies designed a long-term incentive plan that measures performance by growth of the per share value of the company – if the company grows, the value to the shareholders grows and the senior executive team is rewarded. The Plan uses a three-year performance period beginning each year on January 1. The growth of the share value from the first day through the last day of the performance period determines the award value. Half of the award is paid in cash, while the other half is deferred until retirement.

The bank decides how many share units will be made available to each executive annually, given in the form of performance units.

The unique design component comes into play through the objective of creating executive investment in the organization. Each executive must "purchase" the right to the performance units at the beginning of each year through deferral of compensation. The executive is rewarded if the per unit value grows greater than their initial investment. Like any other investment, this amount is at risk if the value of the company does not increase.

This unique design not only rewarded for consistent, long-term performance, but also provided a retention value to the reward program and strengthened the bond between executives and shareholders.

Results The bank has plans to double their asset size and loan portfolios by the year 2011, driven by the executive team. The long-term incentive plan designed by Findley Davies has given the company the ability to reward these individuals for long-term profitability and growth accomplishments, while giving additional incentive to stay and achieve the organization's desired results – enhanced financial performance and attraction and retention of talent.

About Findley Davies

Since 1969, Findley Davies has been working with companies who are interested in maximizing their HR effectiveness. The Firm specializes in helping clients attract and retain the best talent, enhance their financial performance, and structure solutions that drive and manage organizational change. Findley Davies prides itself in providing clients with tools and solutions to manage the challenges and changes clients face everyday; while helping clients maintain a competitive advantage in the marketplace. For more information, please visit our website at www.findleydavies.com or contact us at:

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